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S E C R E T SECTION 01 OF 02 PRAGUE 000488

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EUR/NCE FOR ERIC FICHTE AND MICHELLE LABONTE

E.O. 12958: DECL: 04/26/2016
TAGS: [PREL](#) [PGOV](#) [MASS](#) [MARR](#) [EZ](#) [VE](#)
SUBJECT: ACTION REQUEST: CZECH COMPANY'S PLAN TO PROVIDE
MILITARY AIRCRAFT TO VENEZUELA

REF: A. IIR 6 824 0116 07
[1](#)B. PRAGUE 428
[1](#)C. 06 PRAGUE 1343

Classified By: Ambassador Richard W. Graber for reasons 1.4 (b) and (d)

[1](#)1. (U) This is an action request. Please see paragraph 11.

[1](#)2. (S/NF) Summary: A senior Czech MFA official has provided further information about Czech aircraft manufacturer Aero Vodochody's plans to work with the Government of Venezuela (Ref B), and how the size of the deal is distorting the normal arms export licensing process for political reasons. Post requests the Department provide releasable information Ambassador can use when engaging the highest levels of the Czech Government to prevent this deal going forward. Post further advises the Department that commercial pressure may be the most effective way to stop this cooperation before it starts in earnest, and requests guidance on approaching Aero Vodochody itself. End summary.

[1](#)3. (S/NF) Poloff met April 27 with the Czech MFA's Director of Common Foreign and Security Policy Director Vaclav Balek (please strictly protect). Post received further information in military channels on May 3. Balek shared further information about Czech aircraft manufacturer Aero Vodochody's plans to work with the Government of Venezuela. He said the MFA has been asked to rule on a license application to allow the lease of nine Czech L-39s, and the basing of some of Aero Vodochody's Czech technical personnel in Venezuela to train locals to become self-sufficient in maintaining the aircraft. The contract envisages 2,250 hours of flight training on each plane over a period of 4 years. (Note: Separate information from another friendly source theorized that the first phase of this deal could involve the training of Venezuelan pilots and mechanics in the Czech Republic. End note)

[1](#)4. (S/NF) Balek said he believes this current application is the first part of a three-phase plan designed to make Venezuela self sufficient in all aspects of building, repairing, and flying a version of Aero Vodochody's L-159 with no U.S. content. The desired end-state is a level of self-sufficiency that would make part of Venezuela's military flight operations immune to future sanctions, and to provide Venezuela with the capability to sell military aircraft to its allies.

[1](#)5. (S/NF) Sharing more history of the deal, Balek said when Aero Vodochody had requested preliminary consent for the deal

from the Ministry of Foreign Affairs in the Fall of 2006 the MFA licensing office and the Political Director had opposed the deal. However the political management of the Ministry had intervened and allowed this preliminary license application to go forward, allowing Aero Vodochody to negotiate with Venezuela (Ref C) (Comment: Then-Foreign Minister Sasa Vondra was at that time in the final stages of a campaign to win a Senate seat. The major criticism of Vondra in political spheres was that he is too close to the Americans. This left him especially vulnerable at the time of his senate campaign. Vondra remains in government, as Deputy Prime Minister. End Comment.)

¶6. (S/NF) Balek said Aero Vodochody, under new ownership, had subsequently approached the MFA in January 2007, claiming that, due to concerns about relations with the U.S., which has to license all sales of the U.S. content-laden L-159, Aero Vodochody was unilaterally abandoning pursuit of the deal with Venezuela. In recent meetings Balek had expressed his dismay that Aero Vodochody had misled his office and pursued the deal.

¶7. (S/NF) Balek said the possible second phase of the plan, development of a version of the L-159 with no U.S. content, would not have to go through any type of licensing process at all until planes are ready to be sold to Venezuela. Venezuelan money could fund Czech research and development efforts in the Czech Republic without Aero Vodochody requiring any sort of Czech government permission. The third and final stage, Balek alleged, would involve production of 40 of the new aircraft for shipment to Venezuela and then moving production to Venezuela, completing the journey towards Venezuelan self-sufficiency. Both the sale of 40

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aircraft and the export of manufacturing technology would require a license from the Czech government.

¶8. (S/NF) Balek did not know the timelines for the second and third stages of this deal but believed that Aero Vodochody would structure the contract with Venezuela to ensure it was legally bound to complete all stages. That way it would be even harder for any Czech Government to stop the deal and expose a flagship Czech company to lawsuits for failure to meet its contractual obligations. He expected that research and design work would probably try to have aircraft ready for the Venezuelans at the end of the 4-year lease. He guessed the engines for the new aircraft would come from Ukraine and the avionics from Italy or France.

¶9. (S/NF) Comment: The MFA arms licensing department has provided consistently reliable information for several years. They believe they have a significant problem and are fighting for time. While unable to share a total financial value of the deal in question, they say that the dollar figures are extremely high, vastly exceeding the attempted sale of 10 VERA-E surveillance systems to China in 2003-04. Politics may be swayed by the financial impact of the potential deal. It appears that, without U.S. intervention, the Czech Government may let this deal go forward because of the chance for a major success story for Aero Vodochody, a floundering manufacturer which is an object of national pride. The Minister of Industry and Trade is strongly in favor of the deal (Ref B), and his ministry runs the licensing process. The MFA licensing department expects there to be intense pressure within the Cabinet to allow this deal to go forward, especially since the Czech Government is already under political pressure for pursuing a generally unpopular policy of negotiating with the United States to host a missile defense radar. As a result our contacts believe their objections to the deal may be overruled for political reasons at higher levels within the MFA. U.S. intervention to stop this deal will entail going above the heads of the ministers, and it must be done quickly. Once this deal is licensed, it will become much more politically costly for the Czech Government to shut it down.

¶10. (S/NF) Comment continued: A purely political strategy may not be the most effective way forward. The ruling coalition government is fragile, and there could be a strong public reaction to the blocking of major investment in a Czech firm as a favor to the United States Government. Aero Vodochody has weaknesses. The company is dependent on U.S. support in meeting its contractual obligations to maintain the Czech Air Force's fleet of L-159s. Additionally Aero Vodochody wishes to sell a large stock of surplus L-159s to other countries, and requires U.S. permission to do so because of the U.S. content in the L-159. An approach to Aero Vodochody itself might be useful, but Post is not familiar with USG practice in this area and needs guidance on approaching the company to warn of possible punitive measures, whatever they may be. End comment.

¶11. (S/NF) Action request: Post understands that information on this deal is circulating in several USG channels in classified form. Post requests the Department provide a list of releasable points the Ambassador can make when engaging the highest levels of the Czech Government to prevent Aero Vodochody from cooperating with Venezuela. The current license application is only for Phase 1, the lease of L-39s, but we consider this the wedge to pry open the door for licensing of further cooperation. Post further advises the Department that commercial pressure may be the most effective way to stop this cooperation before it starts in earnest, and requests guidance on approaching Aero Vodochody itself. If at all possible post requests this information not later than May 9, to allow the Embassy sufficient time to intervene before the MFA's delaying tactics are overcome and the license is issued by the Ministry of Industry and Trade. Current estimates are that this will take place in mid-to-late May.
GRABER